

CITY OF LEWISBURG, KENTUCKY
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
JUNE 30, 2017



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CITY OF LEWISBURG
CITY OFFICIALS
JUNE 30, 2017

| | |
|-----------------|----------------|
| Teddy Harper | Mayor |
| David Boggess | Council Member |
| Susan Meyer | Council Member |
| Jason Harper | Council Member |
| Carol Moore | Council Member |
| Jason Rolley | Council Member |
| Scott Sweetsir | Council Member |
| Angela Swinney | City Clerk |
| Hugh Alan Alsup | Police Chief |



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AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lewisburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Lewisburg, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of the City of Lewisburg, Kentucky, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and on pages 28 and 29 and pension plan information on pages 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or to provide any assurance.

City of Lewisburg has elected to omit the Management Discussion and Analysis. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, on our consideration of the City of Lewisburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Lewisburg, Kentucky's internal over financial reporting and compliance.

Gilbert & Gilbert CPA's



November 8, 2017

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| ASSETS: | | | |
| Current Assets: | | | |
| Cash & Cash Equivalents | \$ 444,682 | \$ 420,686 | \$ 865,368 |
| Taxes Receivable - Net | 451 | 0 | 451 |
| Accounts Receivable | 0 | 56,999 | 56,999 |
| Accrued Unbilled Income | 0 | 34,390 | 34,390 |
| Accrued Interest Receivable | 78 | 57 | 135 |
| Prepaid Expenses | 788 | 3,175 | 3,963 |
| Grant Receivable | 0 | 0 | 0 |
| Materials & Supplies | 0 | 17,620 | 17,620 |
| Interfund Receivable (Payables) | 59,152 | (59,152) | 0 |
| Restricted Cash & Investments | 0 | 365,490 | 365,490 |
| Capital Assets, Net | <u>1,201,210</u> | <u>2,392,139</u> | <u>3,593,349</u> |
| TOTAL ASSETS | <u>1,706,361</u> | <u>3,231,404</u> | <u>4,937,765</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Pension Contributions: Current Year | <u>48,041</u> | <u>57,613</u> | <u>105,654</u> |
| LIABILITIES: | | | |
| Accounts Payable | 7,320 | 45,773 | 53,093 |
| Grant Payable | 0 | 0 | 0 |
| Taxes and Retirement Payable | 6,775 | 10,538 | 17,313 |
| Accrued Compensated Absences | 3,314 | 4,183 | 7,497 |
| Accrued Wages & Taxes | 2,160 | 4,369 | 6,529 |
| Accrued Interest Payable | 328 | 26,974 | 27,302 |
| Due to Sanitation Franchise | 0 | 3,593 | 3,593 |
| Customer Deposits | 0 | 91,433 | 91,433 |
| Current Portion of Notes Payable | 14,757 | 0 | 14,757 |
| Current Portion of Bonds Payable | <u>0</u> | <u>71,000</u> | <u>71,000</u> |
| TOTAL CURRENT LIABILITIES | <u>34,654</u> | <u>257,863</u> | <u>292,517</u> |
| LONG TERM LIABILITIES: | | | |
| Notes Payable, Net of Current Portion | 71,151 | 0 | 71,151 |
| Bonds Payable, Net of Current Portion | 0 | 1,040,700 | 1,040,700 |
| Net Pension Liability | <u>210,547</u> | <u>249,307</u> | <u>459,854</u> |
| TOTAL LONG TERM LIABILITIES | <u>281,698</u> | <u>1,290,007</u> | <u>1,571,705</u> |
| TOTAL LIABILITIES | <u>316,352</u> | <u>1,547,870</u> | <u>1,864,222</u> |
| DEFERRED INFLOWS AND RESOURCES | | | |
| Net Difference Between Projected and Actual | | | |
| Investment Earnings on Pension Plan Investment | <u>12,020</u> | <u>14,078</u> | <u>26,098</u> |
| TOTAL DEFERRED INFLOWS | <u>12,020</u> | <u>14,078</u> | <u>26,098</u> |
| NET POSITION: | | | |
| Unrestricted | 310,728 | 108,114 | 418,842 |
| Invested in Capital Assets, Net | | | |
| of Related Debt | 1,115,302 | 1,351,439 | 2,466,741 |
| Restricted for Bond Ordinances | <u>0</u> | <u>267,516</u> | <u>267,516</u> |
| TOTAL NET POSITION | <u>\$ 1,426,030</u> | <u>\$ 1,727,069</u> | <u>\$ 3,153,099</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

| FUNCTIONS/PROGRAMS | | Program Revenues | | |
|--------------------------------|---------------------|-------------------|------------------|------------------|
| | | Charges | Operating | Capital |
| PRIMARY GOVERNMENT | Expenses | for Services | Grants | Grants |
| Governmental Activities: | | | | |
| General Government | \$ 147,134 | \$ 22,447 | \$ 14,100 | \$ 0 |
| Public Safety | | | | |
| Police Department | 99,753 | 0 | 4,619 | 0 |
| Fire Department | 48,394 | 0 | 0 | 11,000 |
| Highways and Streets | 41,163 | 0 | 17,200 | 0 |
| Parks and Recreation | <u>10,827</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Governmental Activities | <u>347,271</u> | <u>22,447</u> | <u>35,919</u> | <u>11,000</u> |
| Business-Type Activities: | | | | |
| Water | 682,281 | 598,886 | 0 | 0 |
| Sewer | 185,344 | 126,023 | 0 | 0 |
| Sanitation | <u>41,646</u> | <u>45,182</u> | <u>0</u> | <u>0</u> |
| Total Business-Type Activities | <u>909,271</u> | <u>770,091</u> | <u>0</u> | <u>0</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 1,256,542</u> | <u>\$ 792,538</u> | <u>\$ 35,919</u> | <u>\$ 11,000</u> |

General Revenues

Taxes:

Property
Motor Vehicle Property
Franchise
Occupational
Municipal Insurance
Investment Income
Miscellaneous
Total

Change in Net Position

NET POSITION-BEGINNING
PRIOR PERIOD ADJUSTMENT
NET POSITION-BEGINNING (restated)
NET POSITION-ENDING

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

| <u>Primary Government</u> | | |
|---------------------------|----------------------|---------------------|
| <u>Governmental</u> | <u>Business-Type</u> | |
| <u>Activities</u> | <u>Activities</u> | <u>Total</u> |
| \$(110,587) | \$ 0 | \$ (110,587) |
| (95,134) | 0 | (95,134) |
| (37,394) | 0 | (37,394) |
| (23,963) | 0 | (23,963) |
| <u>(10,827)</u> | <u>0</u> | <u>(10,827)</u> |
| (277,905) | 0 | (277,905) |
| 0 | (83,395) | (83,395) |
| 0 | (59,321) | (59,321) |
| <u>0</u> | <u>3,536</u> | <u>3,536</u> |
| <u>0</u> | <u>(139,180)</u> | <u>(139,180)</u> |
| (277,905) | (139,180) | (417,085) |
| 88,999 | 0 | 88,999 |
| 6,287 | 0 | 6,287 |
| 48,917 | 0 | 48,917 |
| 94,569 | 0 | 94,569 |
| 47,427 | 0 | 47,427 |
| 709 | 1,184 | 1,893 |
| <u>21,440</u> | <u>0</u> | <u>21,440</u> |
| <u>308,348</u> | <u>1,184</u> | <u>309,532</u> |
| <u>30,443</u> | <u>(137,996)</u> | <u>(107,553)</u> |
| <u>1,373,257</u> | <u>1,887,216</u> | <u>3,260,473</u> |
| <u>22,330</u> | <u>(22,151)</u> | <u>179</u> |
| <u>1,395,587</u> | <u>1,865,065</u> | <u>3,260,652</u> |
| \$ <u>1,426,030</u> | \$ <u>1,727,069</u> | \$ <u>3,153,099</u> |

CITY OF LEWISBURG, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

| | General Fund |
|-----------------------------|--------------------------|
| Cash & Cash Equivalents | \$ 444,682 |
| Prepaid Expenses | 788 |
| Taxes Receivable - Net | 451 |
| Grant Receivable | 0 |
| Accrued Interest Receivable | 78 |
| Due from Enterprise Funds | <u>59,152</u> |
| TOTAL ASSETS | \$ <u>505,151</u> |

LIABILITIES AND FUND EQUITY

LIABILITIES:

| | |
|--|----------------------|
| Accounts Payable | \$ 7,320 |
| Grant Payable to Rural Fire Department | 0 |
| Taxes and Retirement Payable | 6,775 |
| Accrued Wages & Taxes | <u>2,160</u> |
| TOTAL LIABILITIES | <u>16,255</u> |

FUND EQUITY:

| | |
|--|--------------------------|
| Unassigned | <u>488,896</u> |
| TOTAL FUND EQUITY | <u>488,896</u> |
| TOTAL LIABILITIES & FUND EQUITY | \$ <u>505,151</u> |

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

| | |
|---|-------------------|
| Total Fund Balances-Total Governmental funds | \$ 488,896 |
|---|-------------------|

| | |
|---|-----------|
| Capital assets of \$2,195,035 net of accumulated depreciation of (\$993,825) are not financial resources and therefore, are not reported in the funds. See Note 6 for additional detail. | 1,201,210 |
|---|-----------|

| | |
|--|----------|
| Long-term liabilities of \$85,908 and accrued interest of \$328 are not due and payable in the current period and therefore are not reported in the funds. | (86,236) |
|--|----------|

| | |
|---|-----------|
| Net Pension liability of \$210,547 plus deferred inflow of resources of \$12,020 less deferred outflows of resources of \$48,041 associated with the pension liability are not reported in the fund financial statements. | (174,526) |
|---|-----------|

| | |
|--|----------------|
| Compensated absences are reported in the governmental fund when paid but reported when liable in the Statement of Net Position | <u>(3,314)</u> |
|--|----------------|

| | |
|--|----------------------------|
| Net Position of Governmental Activities | \$ <u>1,426,030</u> |
|--|----------------------------|

The notes to this financial statements are an integral part of this statement.

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

| | General Funds |
|---|--------------------------|
| REVENUES: | |
| Property Taxes | \$ 95,286 |
| Licenses and Fees | 145,246 |
| Franchise Fees/Taxes | 48,917 |
| Intergovernmental | 35,976 |
| Road Fund Allocation | 16,275 |
| Other Revenues | <u>36,014</u> |
| TOTAL REVENUES | <u>377,714</u> |
| EXPENDITURES: | |
| General Government | 136,840 |
| Public Safety: | |
| Police Department | 87,577 |
| Fire Department | 21,375 |
| Highways and Streets | 26,933 |
| Parks and Recreation | 6,492 |
| Capital Outlay | 64,446 |
| Debt Service: | |
| Principle Reduction | 15,627 |
| Interest Expense | <u>2,327</u> |
| TOTAL EXPENDITURES | <u>361,617</u> |
| EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES | 16,097 |
| FUND BALANCE AT BEGINNING OF YEAR-RESTATED | <u>472,799</u> |
| FUND BALANCE AT END OF YEAR | \$ <u>488,896</u> |
| Net Changes in Fund Balances-Total Governmental Funds Amounts reported for <i>governmental activities</i> in the Statement of Activities are different because: | \$ 16,097 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$64,446 exceeded depreciation of \$57,336 in the current period. | 7,110 |
| The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt repayments of \$15,627 exceeded debt proceeds of \$0. | 15,627 |
| Compensated absences are reported in the Governmental Funds when paid but are reported in the Statement of Net Position where the liability is accrued. | 1,488 |
| Governmental funds report payments to Kentucky Retirement as pension expense, however in the Statement of Activities, pension expense is adjusted for GASB 68 compliance reporting. This is the amount by which pension expense decreased because of GASB reporting. | <u>(9,879)</u> |
| Change in Net Position of Governmental Activities | <u>30,443</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF NET POSITION-PROPRIETARY FUNDS
JUNE 30, 2017

| | <u>Business -Type Activities-Enterprise Funds</u> | | | |
|--|---|-------------------|-------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
| ASSETS: | | | | |
| Cash | \$ 325,802 | \$ 66,660 | \$ 28,224 | \$ 420,686 |
| Accounts Receivable | 42,855 | 9,844 | 4,300 | 56,999 |
| Accrued Income Unbilled | 26,988 | 5,116 | 2,286 | 34,390 |
| Accrued Interest Income | 57 | 0 | 0 | 57 |
| Due From Other Funds | 33,863 | 0 | 0 | 33,863 |
| Materials and Supplies | 17,106 | 514 | 0 | 17,620 |
| Prepaid Insurance | 1,588 | 1,587 | 0 | 3,175 |
| Restricted Assets: | | | | |
| Cash | 315,159 | 50,331 | 0 | 365,490 |
| Capital Assets, Net | <u>1,592,580</u> | <u>799,559</u> | <u>0</u> | <u>2,392,139</u> |
| TOTAL ASSETS | <u>2,355,998</u> | <u>933,611</u> | <u>34,810</u> | <u>3,324,419</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Pension Contributions-Current Year | <u>48,827</u> | <u>8,786</u> | <u>0</u> | <u>57,613</u> |
| LIABILITIES | | | | |
| Accounts Payable | 30,003 | 15,770 | 0 | 45,773 |
| Accrued Liabilities | 18,217 | 873 | 0 | 19,090 |
| Payable from Restricted Assets: | | | | |
| Accrued Interest | 26,974 | 0 | 0 | 26,974 |
| Current Maturities | 71,000 | 0 | 0 | 71,000 |
| Due to Other Funds | 12,468 | 70,521 | 10,026 | 93,015 |
| Due to Sanitation Service | 3,593 | 0 | 0 | 3,593 |
| Customer's Deposits | 91,433 | 0 | 0 | 91,433 |
| Long-Term Debt | 1,040,700 | 0 | 0 | 1,040,700 |
| Net Pension Liability | <u>211,287</u> | <u>38,020</u> | <u>0</u> | <u>249,307</u> |
| TOTAL LIABILITIES | <u>1,505,675</u> | <u>125,184</u> | <u>10,026</u> | <u>1,640,885</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Revenue | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Net Difference Between Projected & and Actual Investment Earnings on Pension Plan | <u>11,931</u> | <u>2,147</u> | <u>0</u> | <u>14,078</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>\$ 11,931</u> | <u>\$ 2,147</u> | <u>\$ 0</u> | <u>\$ 14,078</u> |
| NET POSITION | | | | |
| Unrestricted | 118,154 | (34,824) | 24,784 | 108,114 |
| Invested in Capital Assets, Net of Related Debt | 551,880 | 799,559 | 0 | 1,351,439 |
| Restricted for Bond Ordinances | <u>217,185</u> | <u>50,331</u> | <u>0</u> | <u>267,516</u> |
| TOTAL NET POSITION | <u>\$ 887,219</u> | <u>\$ 815,066</u> | <u>\$ 24,784</u> | <u>\$ 1,727,069</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF LEWISBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Business-Type Activities-Enterprise Funds</u> | | | |
|---|--|-------------------|-------------------|---------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
| OPERATING REVENUES: | | | | |
| Water Sales | \$ 571,828 | \$ 0 | \$ 0 | \$ 571,828 |
| Sewer Service | 0 | 112,731 | 0 | 112,731 |
| Sanitation Service | 0 | 0 | 43,988 | 43,988 |
| Tapping and Reconnects | 9,073 | 1,084 | 0 | 10,157 |
| Penalties | 12,063 | 3,397 | 1,194 | 16,654 |
| Miscellaneous Income | <u>5,922</u> | <u>8,811</u> | <u>0</u> | <u>14,733</u> |
| TOTAL OPERATING REVENUES | <u>598,886</u> | <u>126,023</u> | <u>45,182</u> | <u>770,091</u> |
| OPERATING EXPENSES: | | | | |
| Salaries | 119,657 | 29,023 | 0 | 148,680 |
| Payroll Tax | 10,278 | 2,493 | 0 | 12,771 |
| Employee Benefits | 67,765 | 15,650 | 0 | 83,415 |
| R&M | 17,329 | 26,462 | 0 | 43,791 |
| Utilities/Telephone | 12,901 | 18,731 | 0 | 31,632 |
| Insurance | 11,011 | 6,577 | 0 | 17,588 |
| Other Operating Expenses | 29,138 | 16,529 | 0 | 45,667 |
| Professional Services | 5,947 | 8,047 | 0 | 13,994 |
| Contractual Services | 2,355 | 7,095 | 41,646 | 51,096 |
| Chemicals | 0 | 5,626 | 0 | 5,626 |
| Miscellaneous Expenses | 1,810 | 762 | 0 | 2,572 |
| Lab Fees | 2,643 | 11,494 | 0 | 14,137 |
| Depreciation Expense | 94,192 | 36,855 | 0 | 131,047 |
| Water Purchased | <u>251,730</u> | <u>0</u> | <u>0</u> | <u>251,730</u> |
| TOTAL OPERATING EXPENSES | <u>626,756</u> | <u>185,344</u> | <u>41,646</u> | <u>853,746</u> |
| OPERATING INCOME | (27,870) | (59,321) | 3,536 | (83,655) |
| NON-OPERATING REVENUES | | | | |
| (EXPENSES): | | | | |
| Interest Income | 1,088 | 96 | 0 | 1,184 |
| Interest Expense | <u>(55,525)</u> | <u>0</u> | <u>0</u> | <u>(55,525)</u> |
| TOTAL NON-OPERATING REVENUE (EXPENSES) | <u>(54,437)</u> | <u>96</u> | <u>0</u> | <u>(54,341)</u> |
| NET INCOME | <u>(82,307)</u> | <u>(59,225)</u> | <u>3,536</u> | <u>(137,996)</u> |
| NET POSITION- July 1, 2016 | 1,029,037 | 836,931 | 21,248 | 1,887,216 |
| Prior Period Adjustment | <u>(59,511)</u> | <u>37,360</u> | <u>0</u> | <u>(22,151)</u> |
| NET POSITION-July 1, 2016 (Restated) | <u>969,526</u> | <u>874,291</u> | <u>21,248</u> | <u>1,865,065</u> |
| NET POSITION- June 30, 2017 | \$ <u>887,219</u> | \$ <u>815,066</u> | \$ <u>24,784</u> | \$ <u>1,727,069</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF LEWISBURG, KENTUCKY
STATEMENTS OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Water</u> | <u>Sewer</u> | <u>Sanitation</u> | <u>Total</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from customers | \$ 603,695 | \$ 126,938 | \$ 45,007 | \$ 775,640 |
| Cash purchase of water | (251,730) | 0 | 0 | (251,730) |
| Cash payments to suppliers for goods and services | (83,927) | (90,976) | (36,285) | (211,188) |
| Cash payments to employees for services | <u>(182,493)</u> | <u>(44,933)</u> | <u>0</u> | <u>(227,426)</u> |
| Net cash provided (used) by operating activities | <u>85,545</u> | <u>(8,971)</u> | <u>8,722</u> | <u>85,296</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Interest paid on debt | (57,102) | 0 | 0 | (57,102) |
| Principle payments on revenue bonds | (66,100) | 0 | 0 | (66,100) |
| Additions to capital assets | <u>(21,186)</u> | <u>(4,724)</u> | <u>0</u> | <u>(25,910)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(144,388)</u> | <u>(4,724)</u> | <u>0</u> | <u>(149,112)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest received on investments | <u>1,085</u> | <u>96</u> | <u>0</u> | <u>1,181</u> |
| Net cash provided (used) from investing activities | <u>1,085</u> | <u>96</u> | <u>0</u> | <u>1,181</u> |
| Net Increase (decrease) in cash and cash equivalents | (57,758) | (13,599) | 8,722 | (62,635) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>698,719</u> | <u>130,590</u> | <u>19,502</u> | <u>848,811</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 640,961</u> | <u>\$ 116,991</u> | <u>\$28,224</u> | <u>\$ 786,176</u> |
| Reconciliation of operating income to net cash | | | | |
| Provided by operating activities: | | | | |
| Income from Operations | \$ (27,870) | \$ (59,321) | \$ 3,536 | \$ (83,655) |
| Adjustment to Reconcile Net Income to Net Cash Provided | | | | |
| by Operating Activities: | | | | |
| Depreciation and Amortization Expense | 94,192 | 36,855 | 0 | 131,047 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) Decrease in Net Accounts Receivable | 1,070 | 384 | (79) | 1,375 |
| (Increase) Decrease in Accrued Unbilled Income | 1,349 | 810 | (96) | 2,063 |
| (Increase) Decrease in Prepaid Expenses | (280) | (279) | 0 | (559) |
| (Increase) Decrease in Inventory | (3,406) | (239) | 0 | (3,645) |
| Increase (Decrease) in Accounts Payable | 4,126 | 9,771 | 0 | 13,897 |
| Increase (Decrease) in Accrued Liabilities | 5,804 | (95) | 0 | 5,709 |
| Increase (Decrease) Due to or from other Funds | 1,519 | 815 | 5,361 | 7,695 |
| Increase (Decrease) in Customer Deposits Payable | 2,670 | 0 | 0 | 2,670 |
| Increase (Decrease) in Net Pension Obligation | <u>6,371</u> | <u>2,328</u> | <u>0</u> | <u>8,699</u> |
| Net Cash Provided By Operating Activities | <u>\$ 85,545</u> | <u>\$ (8,971)</u> | <u>\$ 8,722</u> | <u>\$ 85,296</u> |

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
CITY OF LEWISBURG, KENTUCKY
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting principles of City of Lewisburg, Kentucky, is presented to assist in understanding the financial statements.

The City of Lewisburg was founded and chartered in 1878 and operates under Kentucky Revised Statutes, as amended. The City operates under a Mayor-Council form of government and provides the following services authorized by its charter: public safety (police and fire), highways and streets, sanitation, public improvements, water and sewer services, and general administrative services.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, all potential component units have been considered. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the GAAP. The basic - but not only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. No other government or agency has been included in the City's financial statements because none of the criteria has been met.

B. Government-Wide and Fund Financial Statements

Governmental-Wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities such as the Water and Sewer Company, generally financed in whole or in part with fees charged to external customers.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with distinct functional activity.

Program revenues include:

(1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Fund Financial Statements:

Fund financial statements are provided for governmental and proprietary funds. The proprietary fund reflects the activity of the Water , Sewer and Sanitation Funds.

C. Measurement Focus, and Basis of Accounting

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. The City of Lewisburg's general fund is the city's only governmental fund. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Revenues are considered available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major governmental revenue sources susceptible to accrual include: property taxes, franchise taxes (fees), and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Fund financial statements reflect assets equaling liabilities and fund equity. Fund equity are reported in the following fund categories.

Nonspendable- Amounts that cannot be spent either because they are not in a spendable form or they are legally or contractually required to be maintained in tact.

Restricted- Amounts that can be spent only for specific purposed city charter, city code, state or federal laws, or extremely imposed conditions by grantors or creditors.

Committed- Amounts that can be used only for specific purposes determined by a formal action by city council ordinance.

Assigned- Amounts that are designated by the mayor for a specific purpose but are not spendable until a budget or ordinance is passed by city council.

Unassigned- All amounts not included in other spendable classifications.

of The Water, Sewer Fund, and Sanitation Fund (the proprietary fund financial statements) uses the accrual basis of accounting, which is the same method of accounting used to reflect Water, Sewer, and Sanitation activity in the government-wide statements. Non-operating revenue such as interest income and other income not from the delivery of services are reported after income from operations.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

D. Basis of Presentation

GASB Statement of Accounting Standards No.34, as amended by GASB 63, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (GASB 34) established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt- This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the to the unspent proceeds is not included in the calculation of "invested in capital assets, net of related debt." Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted- This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted- This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

E. Cash and Investments

The City's cash consists of cash on hand and demand deposits and certificates of deposit. Cost approximates fair value.

The City is authorized by statute to invest in: (1) obligations of the United States and of its agencies and instrumentalities; (2) bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; (3) shares of any savings and loan association insured by an agency of the government of the United States up to the amount so insured; and (4) interest-bearing deposits in national or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in larger amounts providing such banks shall pledge as security obligations of the United States government, its agencies and instrumentalities.

F. Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$2,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Capital assets, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Construction interest is capitalized, however there was none for the current year. Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|------------------------------------|-------|
| Buildings | 10-40 |
| Improvements, other than buildings | 15-40 |
| Infrastructure | 12-25 |
| Equipment and Furnishings | 5-10 |
| Vehicles | 7-20 |

For information describing capital assets, see Note 6.

G. Compensated Absences

Employees earn five days of vacation time after being employed one year. Upon completion of the second year of employment vacation time increases to two weeks per year. Upon completion of ten years of employment vacation time increases to three weeks. The city allows employees six sick days and three personal days per year. Upon termination of employment, accumulated sick leave has no monetary value.

As of June 30, 2017, the liability for accrued vacation time is \$7,497. The amount applicable to the governmental activities is \$ 3,314. The amount applicable to business-type activities is \$4,183.

H. Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period.

Additional information regarding long-term debt of the water and sewer activities is shown in Note 7.

I. Fund Equity

The governmental fund financial statements report a reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

J. Property Tax

Property taxes are assessed January 1, are levied in September and are payable through December 31 of each year, becoming delinquent as of January 31. The City bills and collects its own property taxes. City property tax revenues are recognized if collected within sixty days after year end.

The 2016 tax rate is \$.492 per \$100 assessed valuation for real property and \$.5727 per \$100 assessed valuation for tangible property. The City is permitted by the State Constitution to levy taxes up to \$.75 per \$100 assessed valuation; however, accordingly to statutes, the City may not increase the tax rate on real property by more than four percent per year (exclusive of assessment growth) without obtaining consent through referendum.

Motor vehicle taxes are due and collected in the birth month of the vehicle's licensee. They are collected by the County Clerk of Logan County and remitted to the City monthly.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

K. Depreciation Fund

The various ordinances authorizing the bond issues of the Water and Sewer Company requires monthly transfers into a depreciation fund until certain minimum balances are attained. These funds may be used for the costs of acquiring or constructing extensions, additions, improvements and betterments as capital improvements to the Plant.

L. Bond Sinking Fund

The various ordinances authorizing the bond issues of the Water and Sewer Company require monthly transfers into bond sinking funds as follows: (1) one-sixth of the next month interest installment to become due on the Bonds then outstanding, plus (2) one-twelfth of the principle of any Bonds maturing on the next succeeding December 1, plus (3) one-sixtieth of the required sinking fund reserve amount (the maximum annual requirement due in any future years).

M. Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments (including restricted assets) with a maturity of six months or less when purchased to be cash equivalents.

N. Use of Estimates and Assumptions

In preparing financial statements that conform with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Accordingly, actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the allowance for doubtful accounts for accounts receivable.

O. Date of Management's Review

Subsequent events were evaluated through November 8, 2017, which is the date the financial statements were available to be issued.

2. BUDGETARY INFORMATION

Budget Policy and Practice:

The Mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Basis of Budgeting:

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. The mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter total expenditures of any fund must be approved by the City Council. Total expenditures for a fund legally may not exceed the total appropriations. The budget was amended near year end. The budget is prepared on the cash basis of accounting; however, the fund financial statements are prepared on the modified accrued basis of accounting. The resulting difference is immaterial.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

3. CASH AND CASH EQUIVALENTS

It is the city's policy, as required by state statute, for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. At the end of the year, cash and cash equivalents were invested in various checking and savings accounts and certificate of deposit.

At June 30, 2017, the book balance of the city's deposits was \$1,230,858 and the bank balance was \$1,238,909. Deposits are covered up to \$250,000 of FDIC insurance at each bank the city has invested funds with. The remaining deposits were fully collateralized. Deposits are categorized to give an indication of the level of risk assumed by the city at year end. The categories are described as follows:

Category 1- Insured

Category 2- Collateralized with securities held by the pledging financial institution's trust department or agent in the city's name.

Category 3- Collateralized with securities held by the pledged financial institution in the institution's name.

Deposits at June 30, 2017, categorized by level of risk, are:

| | Risk Category | | | Bank | Book |
|-----------------------|------------------|-------------|------------------|--------------------|--------------------|
| | 1 | 2 | 3 | Balance | Value |
| Unrestricted deposits | \$457,985 | \$ - | \$415,434 | \$ 873,419 | 865,368 |
| Restricted deposits | <u>299,318</u> | <u>-</u> | <u>66,172</u> | <u>365,490</u> | <u>365,490</u> |
| Total deposits | <u>\$757,303</u> | <u>\$ -</u> | <u>\$481,606</u> | <u>\$1,238,909</u> | <u>\$1,230,858</u> |

The city also held \$221 of petty cash and cash on hand as of the June 30th year end.

4. RECEIVABLES

General fund taxes receivable is reflected at \$451 which equals taxes collected within sixty days subsequent to year end. Enterprise fund accounts receivable is reflected at \$56,999. The enterprise fund uses the direct write off method for bad debts.

5. EMPLOYEE BENEFIT PLAN

Pension Plan

City of Lewisburg is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description- CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Contributions- For the year ended June 30, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications and 8.00% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, the City contributed 18.68% and 31.06% of each employee's nonhazardous or hazardous wages which equal to the actuarially determined rates set by the Board. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% or 8.00% of wages to their own account and 1% to the health insurance fund. the employer contribution rate is set annually by the Board based on an actuarial valuation. the employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For nonhazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$47,644 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$35,359 to the CERS pension fund and \$12,471 to the CERS insurance fund.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources- At June 30, 2017, the City reported a liability of \$459,859 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016 the City's proportion was .006410% nonhazardous and .008408% hazardous, while at June 30, 2015, the City's proportion was .006587% nonhazardous and .008933% hazardous.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2017, the City recognized pension expense of \$59,328. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual results | \$ 3,459 | \$ 0 |
| Changes of assumptions | 24,997 | 0 |
| Difference between projected and actual earnings on plan investments | 41,839 | 0 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 0 | 26,099 |
| Company contributions subsequent to the measurement date | <u>35,359</u> | <u>0</u> |
| Total | \$ <u>105,654</u> | \$ <u>26,099</u> |

The \$35,359 of deferred outflows of resources resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expenses as follows:

| Year ending June 30, | |
|----------------------|----------|
| 2018 | (26,111) |
| 2019 | (17,469) |
| 2020 | (17,015) |
| 2021 | (9,700) |

Actuarial Assumptions- The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.25% |
| Salary increases | 4.00%, average, including inflation |
| Investment Rate of return | 7.50%, net of plan investment expense, including inflation |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumption developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|---|------------------------------|---|
| Combined Equity | 44% | 5.40% |
| Combined Fixed Income | 19% | 1.50% |
| Real Return (Diversified Inflation Strategies) | 10% | 3.50% |
| Real Estate | 5% | 4.50% |
| Absolute Return (Diversified Hedge Funds) | 10% | 4.25% |
| Private Equity | 10% | 8.50% |
| Cash Equivalent | <u>2%</u> | -0.25% |
| Total | <u>100%</u> | |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Discount Rate- The discount rate used to measure the total pension liability was 7.50 percent at June 30, 2015. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The discount rate does not use a municipal bond rate.

Sensitivity of the Company's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- the following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | <u>Discount Rate</u> | <u>Company's Proportionate Share of Net Pension Liability</u> |
|-----------------------|----------------------|---|
| 1% decrease | 6.50% | \$ 577,577 |
| Current discount rate | 7.50% | \$ 459,854 |
| 1% increase | 8.50% | \$ 362,641 |

Payable to the Pension Plan- At June 30, 2017, the City reported a payable of \$5,364 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

6. CAPITAL ASSETS

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2017:

Governmental Activities:

| | Balance 06-30-16 | Increase | Decrease | Balance 06-30-17 |
|---|---------------------|----------|----------|---------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 108,269 | \$ 0 | \$ 0 | \$ 108,269 |
| Total Capital Assets Not Being Depreciated | \$ 108,269 | \$ 0 | \$ 0 | \$ 108,269 |
| Other Capital Assets | | | | |
| Buildings | \$ 946,436 | \$ 0 | \$ 0 | \$ 946,436 |
| Infrastructure | 598,259 | 9,600 | 0 | 607,859 |
| Furniture, Machinery & Equipment | 503,635 | 54,846 | 26,010 | 532,471 |
| Total Other Capital Assets | 2,048,330 | 64,446 | 26,010 | 2,086,766 |
| Less accumulated Depreciation for: | | | | |
| Buildings & Improvements | 136,939 | 20,524 | 0 | 157,463 |
| Infrastructure | 432,663 | 14,230 | 0 | 446,893 |
| Furniture, Machinery and Equipment | 392,897 | 22,582 | 26,010 | 389,469 |
| Total Accumulated Depreciation | 962,499 | 57,336 | 26,010 | 993,825 |
| Other Capital Assets, Net | 1,085,831 | 7,110 | 0 | 1,092,941 |
| TOTALS | \$ 1,194,100 | \$ 7,110 | \$ 0 | \$ 1,201,210 |

Business-Type Activities:

| | Balance 6-30-16 | Increase | Decrease | Balance 6-30-17 |
|---|--------------------|--------------|----------|--------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 74,398 | \$ 0 | \$ 0 | \$ 74,398 |
| Total Capital Assets Not Being Depreciated | \$ 74,398 | \$ 0 | \$ 0 | \$ 74,398 |
| Other Capital Assets: | | | | |
| Building & Improvements | \$ 113,224 | \$ 0 | \$ 0 | \$ 113,224 |
| Machinery and Equipment | 204,352 | 21,185 | 0 | 225,537 |
| Water Distribution | 3,390,656 | 0 | 0 | 3,390,656 |
| Sewer Distribution | 1,911,125 | 4,725 | 0 | 1,915,850 |
| Total Other Capital Assets | 5,619,357 | 25,910 | 0 | 5,645,267 |
| Less: Accumulated Depreciation | (3,196,479) | 131,047 | 0 | (3,327,526) |
| Net Property, Plant, and Equipment | 2,422,878 | (105,137) | 0 | (2,317,741) |
| TOTALS | \$ 2,497,276 | \$ (105,137) | \$ 0 | \$ 2,392,139 |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

7. DEBT STRUCTURE

The following is a summary of notes and bonds payable obligated by the City for the year ended June 30, 2017:

A. Governmental Activities

| | <u>Notes Payable</u> |
|---------------------------------|----------------------|
| Notes Payables at July 1, 2016 | \$ 101,535 |
| Additions | 0 |
| Retirements | <u>(15,627)</u> |
| Notes Payables at June 30, 2017 | \$ <u>85,908</u> |
| Current Portion | \$ 14,757 |
| Long-Term Portion | <u>71,151</u> |
| TOTALS | \$ <u>85,908</u> |

Notes payable activities consists of the following:

| | <u>July 1 2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2017</u> |
|---|------------------------|------------------|--------------------|--------------------------|
| State Fire Commission. borrowed in August 2008 to assist in the purchase of a fire truck. Payments made by withholding the state aid income, which for the current year equalled \$11,000. The loan carries a 3% per per interest rate. | \$ 19,984 | \$ 0 | \$ 10,400 | \$ 9,584 |
| Kentucky League of Cities-borrowed in May 2009 to assist in acquisition and renovation of the city government buildings, varying monthly payments approximating of \$675 per month for 20 years at variable interest rates. The rate at June 2016 was 2.560% plus fees of 1.060%. | <u>81,551</u> | <u>0</u> | <u>5,227</u> | <u>76,324</u> |
| TOTAL | \$ <u>101,535</u> | \$ <u>0</u> | \$ <u>15,627</u> | \$ <u>85,908</u> |

The annual requirements to amortize the city general government debt outstanding as of June 30, 2017 are as follows:

| | <u>State Fire Commission</u> | | <u>Kentucky League of Cities</u> | | |
|-----------------|------------------------------|---------------|----------------------------------|------------------|-------------------|
| Fiscal Year | Principle | Interest | Principle | Interest | Total |
| Ending June 30, | | | | | |
| 2018 | 9,584 | 288 | 5,173 | 2,674 | 17,719 |
| 2019 | 0 | 0 | 5,363 | 2,488 | 7,851 |
| 2020 | 0 | 0 | 5,561 | 2,290 | 7,851 |
| 2021 | 0 | 0 | 5,766 | 2,085 | 7,851 |
| 2022 | 0 | 0 | 5,978 | 1,873 | 7,851 |
| 2023-27 | 0 | 0 | 33,357 | 5,898 | 39,255 |
| 2028-30 | <u>0</u> | <u>0</u> | <u>15,126</u> | <u>577</u> | <u>15,703</u> |
| TOTALS | \$ <u>9,584</u> | \$ <u>288</u> | \$ <u>76,324</u> | \$ <u>17,885</u> | \$ <u>104,081</u> |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

7. DEBT STRUCTURE-CONTINUED

| B. Bonds payable activities consists of the following: | July 1, <u>2016</u> | <u>Retirements</u> | June 30, <u>2017</u> |
|---|------------------------|--------------------|-------------------------|
| Revenue Bonds payable activities and balances at June 30, 2017, consist of the following individual issues: | | | |
| \$511,000 Series 1989 Water System Bonds due in annual installments of \$5,200 to \$28,800 through January 1, 2029; interest rate is 5.00%. | 284,500 | 16,100 | 268,400 |
| \$546,000 Series 1990 Water System Bonds due in annual installments of \$5,000 to \$30,000 through January 1, 2030; interest rate is 5.00%. | 317,000 | 16,000 | 301,000 |
| \$140,000 Series 1999 Water System Bonds due in annual installments of \$1,500 to \$7,100 through January 1, 2038; interest rate is 4.50%. | 106,800 | 3,000 | 103,800 |
| \$617,000 Series 2002 Water System Bonds due in annual installments of \$10,000 to \$40,000 through July 1, 2026; interest rate varies from 3.15% to 5.15%. | 316,000 | 28,000 | 288,000 |
| \$178,000 Series 2003 Water System Bonds due in annual installments of \$1,500 to \$10,000 through July 1, 2043; interest rate is 4.250% | <u>153,500</u> | <u>3,000</u> | <u>150,500</u> |
| TOTAL | \$ <u>1,177,800</u> | \$ <u>66,100</u> | \$ <u>1,111,700</u> |
| Current Portion | | | 71,000 |
| Long Term Portion | | | <u>1,040,700</u> |
| Total | | | \$ <u>1,111,700</u> |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

7. DEBT STRUCTURE-CONTINUED

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinance. The ordinances provide that the revenue of the system is to be used first to establish and maintain the revenue bond funds, and second to pay operating and maintenance expenses of the system. Any remaining funds are to be transferred to the Depreciation Fund.

The annual requirements to amortize all debt outstanding as of June 30, 2017, are as follows:

| | <u>Water Fund</u> | | |
|-------------|---------------------|-------------------|---------------------|
| Fiscal Year | | | |
| Ending | Principal | Interest | Total |
| 2018 | 71,000 | 52,236 | 123,236 |
| 2019 | 72,900 | 48,753 | 121,653 |
| 2020 | 77,500 | 45,081 | 122,581 |
| 2021 | 80,500 | 41,191 | 121,691 |
| 2022 | 84,700 | 37,101 | 121,801 |
| 2023-27 | 403,900 | 120,952 | 524,852 |
| 2028-32 | 195,500 | 42,681 | 238,181 |
| 2033-37 | 66,100 | 20,255 | 86,355 |
| 2038-42 | 49,600 | 7,013 | 56,613 |
| 2043-43 | <u>10,000</u> | <u>213</u> | <u>10,213</u> |
| TOTALS | \$ <u>1,111,700</u> | \$ <u>415,476</u> | \$ <u>1,527,176</u> |

8. RESTRICTED NET POSITION

The restricted component of the City of Lewisburg's net position is as follows:

| <u>ENTERPRISE FUND</u> | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|-------------------------------|--------------------------|-------------------------|--------------------------|
| Depreciation Funds | \$ 218,970 | \$ 50,331 | \$ 269,301 |
| Bond Interest & Sinking Funds | <u>96,189</u> | <u>0</u> | <u>96,189</u> |
| | \$ <u>315,159</u> | \$ <u>50,331</u> | \$ <u>365,490</u> |

NOTES TO FINANCIAL STATEMENTS - CONTINUED

9. DEPRECIATION EXPENSE

Depreciation expense was charged to governmental activities as follows:

| | |
|---|------------------|
| Administrative | \$ 7,244 |
| Police | 5,107 |
| Fire | 26,419 |
| Streets & Infrastructure | 14,230 |
| Recreation | <u>4,335</u> |
| Total Depreciation Expense-Primary Government | \$ <u>57,335</u> |

Depreciation charged to the business-type activities is as follows:

| | |
|---|-------------------|
| Water | \$ 94,192 |
| Sewer | 36,855 |
| Sanitation | <u>0</u> |
| Total Depreciation Expense-Business Type Activities | \$ <u>131,047</u> |

10. RISK MANAGEMENT-INSURANCE

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. There have been no claims against coverage for the current year or for the three prior years.

11. NET WORKING CAPITAL

The enterprise fund net working capital is the difference between current assets and current liabilities excluding restricted cash and current liabilities payable from restricted cash as computed below:

| | |
|--------------------------------|-----------------------|
| <u>Current Assets</u> | |
| Cash, unrestricted | \$ 420,686 |
| Account receivable, net | 56,999 |
| Unbilled Revenues | 34,390 |
| Accrued Interest | 57 |
| Materials & Supplies | 17,620 |
| Prepaid Insurance | <u>3,175</u> |
| | <u>532,927</u> |
| <u>Current Liabilities</u> | |
| Accounts Payable | 45,773 |
| Accrued Liabilities | 19,090 |
| Due to Sanitation Franchise | <u>3,593</u> |
| | <u>68,456</u> |
| Net Working Capital | \$ <u>464,471</u> |

12. GRANTS

The City receives State Grants for specific purposes that are subject to review and audit by State agencies. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

13. GARBAGE DISPOSAL CONTRACT

In July, 1973, the City contracted for garbage disposal with a third party. Under the terms of the agreement, the City remits 100% of billed sanitation fees to the contracting party, with the City retaining penalties collected as franchise revenue.

14. INTERFUND BALANCES AND TRANSFERS

At year end there is usually a balance in amounts due from other funds or to other funds for expenditures made on behalf of another fund that has not been repaid.

15. JOINT VENTURE

In 1972, City of Lewisburg and City of Russellville entered into an agreement to purchase Spa Lake jointly. The division of interest was determined to be 20% and 80%, respectively. City of Lewisburg granted City of Russellville the authority to manage and control the property in order to secure financing from REDA.

16. ECONOMIC DEPENDENCY

The city is under contract to purchase its water from the Logan Todd Regional Water District. The Water District provides water to governmental entities at wholesale price.

17. PRIOR PERIOD ADJUSTMENT

Due to the change in the proportionate portion of the city's payroll that is subject to retirement coverage between the city and the water and sewer system, a prior period adjustment was necessary increasing the governmental net position and decreasing the water sewer system net position to reflect a greater amount of the net pension liability to the water and sewer system.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEWISBURG, KENTUCKY
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL-GENERAL FUND
YEAR ENDED JUNE 30, 2017

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts Budgetary Basis | Variance With Final Budget |
|-----------------------------------|---------------------------------|------------------------------|--------------------------------------|----------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 83,000 | \$ 83,000 | \$ 89,014 | \$ 6,014 |
| Other Taxes | 149,500 | 149,500 | 191,343 | 41,843 |
| License and Fees | 16,225 | 16,225 | 23,657 | 7,432 |
| Miscellaneous | 12,000 | 12,000 | 21,440 | 9,440 |
| Intergovernmental | 17,650 | 17,650 | 35,051 | 17,401 |
| Road Fund Allocation | <u>20,820</u> | <u>20,820</u> | <u>17,224</u> | <u>(3,596)</u> |
| TOTAL REVENUES | 299,195 | 299,195 | 377,729 | 78,534 |
| EXPENDITURES | | | | |
| General Government | 170,433 | 170,433 | 145,121 | 25,312 |
| Police | 130,222 | 130,222 | 123,580 | 6,642 |
| Fire | 36,750 | 36,750 | 49,321 | (12,571) |
| Streets | 49,500 | 49,500 | 36,533 | 12,967 |
| Parks & Recreation | <u>33,200</u> | <u>33,200</u> | <u>6,492</u> | <u>26,708</u> |
| TOTAL EXPENDITURES | <u>420,105</u> | <u>420,105</u> | <u>361,047</u> | <u>59,058</u> |
| Net change In Fund Balance | (120,910) | (120,910) | 16,682 | 137,592 |
| Carryover Balances | <u>345,598</u> | <u>345,598</u> | <u>431,413</u> | <u>85,815</u> |
| Ending Balances | \$ <u>224,688</u> | \$ <u>224,688</u> | \$ <u>448,095</u> | \$ <u>223,407</u> |

BUDGETARY INFORMATION

Budget Policy and Practice:

The Mayor submits an annual budget to the City Council in accordance with the City Charter and Kentucky Revised Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. The budget was not amended during the year.

Basis of Budgeting:

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. The mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter total expenditures of any fund must be approved by the City Council. Total expenditures for a fund legally may not exceed the total appropriations.

The budget is prepared on the modified cash basis of accounting.

See Independent Auditor's Report.

CITY OF LEWISBURG, KENTUCKY
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET TO ACTUAL GENERAL FUND-Continued
YEAR ENDED JUNE 30, 2017

General Fund

Explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures.

Revenues:

Actual amounts (budgetary basis) "Total Revenues"
From the budgetary comparison schedule.

\$ 377,729

Adjustments:

The city budgets their revenues on a cash basis rather than on the modified accrual basis. On the budgetary basis revenues are recognized when received, and on GAAP basis revenues are recognized when measurable and available.

This is the change in property tax receivable.

(15)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance-governmental funds

\$ 377,714

Expenditures:

Actual Amounts (budgetary basis) "Total Expenditures" from
the budgetary comparison schedule.

361,047

Adjustments:

The City budgets their expenditures on a modified cash basis, rather than on the modified accrual basis. On the budgetary basis expenditures are recognized when paid for, and on the GAAP basis they are recognized when incurred.

This is the change in accrued wages and taxes

570

Total Expenditures as reported on the statement of revenues, expenditures, and changes in fund balance-governmental funds

\$ 361,617

CITY OF LEWISBURG
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30 2017 AND 2016

| | <u>June 30, 2017</u> | | <u>June 30, 2016</u> | |
|---|----------------------|------------------|----------------------|------------------|
| | <u>Non-Hazardous</u> | <u>Hazardous</u> | <u>Non-Hazardous</u> | <u>Hazardous</u> |
| City's proportion of the net pension liability | 0.006410 | 0.008408 | 0.006587 | 0.008933 |
| City's Proportionate share of the net pension liability (asset) | \$ 315,585 | \$ 144,274 | \$ 283,217 | \$ 137,132 |
| City's covered-employee payroll | \$ 180,379 | \$ 45,509 | \$ 151,765 | \$ 43,712 |
| City's share of the net pension liability (asset) as a percentage of its covered-employee payroll | 174.96% | 317.02% | 186.62% | 313.72% |
| Plan fiduciary net position as a percentage of the total pension liability | 55.50% | 53.95% | 59.97% | 57.52% |

Notes:

Schedule is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined (measured) as of the fiscal year presented.

See accompanying notes to financial statements.

CITY OF LEWISBURG
SCHEDULE OF THE CITY'S CONTRIBUTIONS COUNTY
EMPLOYEES' RETIREMENT SYSTEM FOR THE
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|-----------------|-----------------|
| Contractually required contribution | \$ 35,220 | \$ 40,295 |
| Contribution in relation to the contractually required contribution | <u>(35,220)</u> | <u>(40,295)</u> |
| Contribution deficiency (excess) | \$ <u>0</u> | \$ <u>0</u> |
| City's covered-employee payroll | \$225,888 | \$ 195,477 |
| Contributions as a percentage of covered-employee payroll | 15.59% | 20.61% |

Notes:

Schedule is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

Contractually required employer contributions exclude the portion of contribution paid to the CERS, but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The amounts presented for each fiscal year were determined (measured) as of December 31, the reporting year-end of the city.

See accompanying notes to financial statements.

CITY OF LEWISBURG
SCHEDULE OF CHANGES IN BENEFITS AND ASSUMPTIONS
FOR THE YEAR ENDED JUNE 30, 2017

County Employee Retirement System

Changes of benefit terms for the year ended June 30, 2016- None.

Changes in assumptions for the year ended June 30, 2016- None.

SUPPLEMENTAL INFORMATION



DAVID GILBERT CPA
VERONICA GILBERT CPA

GILBERT & GILBERT, P.S.C.

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MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and the City Commission
City of Lewisburg, Kentucky

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of City of Lewisburg, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Lewisburg, Kentucky's basic financial statements and have issued our report thereon dated November 8, 2017. Which includes an explanatory paragraph regarding the omission of Management Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Lewisburg, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lewisburg, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lewisburg, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses, 2017-1 and, 2017-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lewisburg, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*.

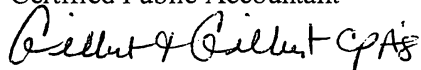
City of Lewisburg, Kentucky's Response to Findings

City of Lewisburg, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Lewisburg, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert & Gilbert, PSC
Certified Public Accountant



Glasgow, Kentucky
November 8, 2017

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017

Reference # 2017-1

Internal Control: The city does not have adequate segregation of duties for an internal control structure to exist.

Criteria

Management is responsible to develop and implement an internal control structure for the safeguarding of assets.

Cause of Condition

The inherent size of the city.

Effect of Condition

There is an increased risk of material misstatement due to the deficiency in internal control.

Recommendation

We recommend that the city seek compensating controls to mitigate this deficiency.

Auditee Response

The city will search for ways to compensate for the lack of segregation of duties due to the inherent size of the city.

Reference #2017-2

Internal Control: The city does not have an individual capable of creating financial statements, including footnotes.

Criteria

Management is responsible to maintain a system of internal control including employing an individual capable of creating financial statements including footnotes.

Cause of condition

The inherent size of the city.

Effect of condition

There is an increased risk of material misstatement due to the deficiency in internal control.

Recommendation

We recommend that the city seek compensating controls to mitigate this deficiency.

Auditee response

The city will search for ways to compensate for the internal control deficiency due to not having an individual capable of creating financial statements, including footnotes.

CITY OF LEWISBURG, KENTUCKY
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

| <u>Reference Number</u> | <u>Summary of Finding</u> | <u>Status</u> |
|-----------------------------|---|---------------------------------|
| 2016-1 | There is a lack of segregation of duties necessary for an internal control structure to exist. Due to the inherent size of the City, the administration of the City is performed by the City Clerk who is responsible for all day to day accounting activities of the City. | Unresolved. See finding 2017-1. |
| 2016-2 | Due to the inherent size of the city, the city does not have an individual that it can designate capable of creating financial statements including footnotes. | Unresolved. See finding 2017-2 |